

VZCZCXYZ0006
PP RUEHWEB

DE RUEHKU #0400/01 1160601
ZNY CCCCC ZZH
P 260601Z APR 09
FM AMEMBASSY KUWAIT
TO RUEHC/SECSTATE WASHDC PRIORITY 3228
INFO RHMFISS/USCENTCOM MACDILL AFB FL PRIORITY
RUEHGB/AMEMBASSY BAGHDAD PRIORITY 1412

C O N F I D E N T I A L KUWAIT 000400

SIPDIS

E.O. 12958: DECL: 04/22/2019
TAGS: ECON ECIN EINV ENRG IZ KU
SUBJECT: SECURITY, BILATERAL ISSUES HINDER KUWAITI
INVESTMENT IN IRAQ

Classified By: Economic Counselor Oliver John for reasons 1.4(b) and (d).

¶1. (SBU) Summary. Kuwait has been a historical gateway to Iraq, but thus far only a few Kuwaiti business people have taken advantage of the country's location to pursue opportunities in post-Saddam Iraq. The largest deal to date was telecommunications company Zain's USD 1.2 billion purchase of Iraqna Mobile Phone Services, making it the largest telecom provider in Iraq. Other large investments include Al-Aqeelah's \$50 million airport services project in Najaf and Burgan Bank's purchase of a 45% interest in Bank of Baghdad. There have been other smaller investments in the Kurdish region. Kuwaiti business persons cite a number of issues constraining broader economic engagement, chief among them a continuing concern about security in Iraq. Among other concerns are GOI seizures of Kuwaiti property in Basra, competition from Iranian subsidized investors, and a perception among the Sunni majority here that their Shia compatriots have the inside track with their co-religionists in southern Iraq. These issues, against the backdrop of continuing difficulties in resolving outstanding bilateral issues with Iraq, make the majority of business persons here hesitant to plunge into business development in Iraq. End summary.

¶2. (SBU) Kuwait has been the gateway for U.S. military operations in Iraq, and Kuwaiti firms (such as Agility) have taken advantage of the country's location to provide services to the U.S. military -- both in Kuwait and Iraq. Some of these services have likely had an economic spillover effect on the broader Iraqi economy. In addition, despite the ongoing Kuwait-Iraq political tensions and unresolved issues dating from Iraq's invasion of Kuwait, some Kuwaiti businesspeople are venturing back north of the border. The activity is much more limited than Kuwait's location as an immediate neighbor would suggest, however. Trade volumes are still quite limited. There are small scale exports to Iraq of construction materials and various household products goods through the Abdaly-Safwan crossing which totaled KD 244,000 (\$US 854 million) in 2007. The only large scale Kuwaiti export to Iraq is the Kuwait National Petroleum Company (KNPC) sale of fuel oil and diesel (350 million liters in 2008) for use in generating electricity to the Iraq State Oil Marketing Organization (SOMO) under a contract which authorizes delivery of up to 2 million liters of fuel per day under the current contract.

Investment

¶3. (U) Some of the more adventurous Kuwaiti firms have also invested in Iraq. The largest investment was telecommunications company Zain's USD 1.2 billion purchase of Iraqna Mobile Phone Services which will be combined with Zain subsidiary MTC Ather (which holds one of three nationwide telecom licenses), purchased for USD 1.2 billion, making it the largest telecom provider in Iraq. Other

sizeable Kuwaiti investments include Burgan Bank's acquisition of a 45% stake in the Bank of Baghdad, the largest commercial bank in Iraq, and Al-Aqeeyah's \$50 million airport services company, which began operations at the new commercial airport in Najaf. Al-Aqeeyah is looking into opportunities to provide passenger air services to cities not currently served by the airport. There are also the beginnings of investment interest and activity in the Kurdish regions. Gulf Keystone Petroleum Corporation, a UK-listed company with part Kuwaiti ownership, is beginning hydrocarbon exploration in two blocks in the Kurdish controlled region. A major Kuwaiti food retailer, The Sultan Center Food Products Company, is also reportedly breaking ground on a new supermarket in the region. In addition, Kuwaiti engineering consultancy Gulf Consult officials recently said that they signed a redevelopment contract (along with several other engineering firms) in Iraq to plan for the redevelopment of Basrah. According to Gulf Consult, the planning meetings are scheduled to be held in Kuwait, which raises potential visa questions for Iraqi participants.

Why so limited?

¶4. (SBU) As far as we can tell, these activities are still the exception for Kuwaiti business persons rather than the rule. Most members of the Kuwaiti business community that the Mission has spoken with still cite security concerns as the top reason for not investing in or operating projects in Iraq. Many also cite concern about ongoing disputes over GOI seizure of Kuwaiti-owned properties in the Basra area as examples of Iraqi attitudes toward and treatment of Kuwaitis.

Kuwaiti investors as a group tend toward the conservative side which combined with the memory of the 1990 Iraqi invasion and brutal occupation of Kuwait make most Kuwaiti investors hesitant to move quickly toward investing in post-Saddam Iraq. Although Kuwaitis have traditionally invested in Basrah since the 19th century, one Kuwaiti businessman told us that he had looked at possible investments, but could not compete with Iranian subsidized businesses. "They were getting loans with interest rates of one percent" from the Iranian government. In addition, there is a perception among some Kuwaiti businesspeople that Shia Kuwaitis have an "in" in the south of Iraq, with their co-religionists.

¶5. (C) In addition to the significant security concerns, the existence of a host of thorny bilateral issues foster an image of an Iraq that continues to resist recognition of Kuwait as an independent state and one that is unwelcoming for Kuwaiti investment. Thus far there is no GoK interest in investing any of its considerable sovereign wealth fund assets in Iraq. One senior KIA official replied when asked about possible GoK investments in Iraq: "Absolutely not!" For its part, government-owned Kuwait Airways holds a \$1.3 billion judgment against Iraq Airways and is much more likely to try and seize Iraqi Airways aircraft than fly into Iraq. Although Kuwait's private sector will continue to look for opportunities in Iraq, the ongoing political disputes make it less likely that, at least for the present, more than a small number of Kuwaiti investors or business people will view investing in Iraq as a risk worth the potential reward.

Comment

¶6. (C) Assuming that the security situation in Iraq continues to improve, the focus of Kuwaiti businesses and investors is likely to shift toward Iraq's business environment and their own balance of risk and reward. In addition to steps that the GoI can take to improve foreign investment and trade generally (i.e., continuing to improve the investment climate, pass the hydrocarbons law), there are steps that both governments can take to remove barriers to bilateral economic relations, including improving the border clearance process and visa issuance. (Note: The GoK recently issued a USD 192 million design and build tender to expand its side of

the border crossing. End note.) Ultimately, however, for the GoK to actively encourage investment in Iraq there will need to be progress on a host of bilateral issues, such as Iraqi acceptance of internationally recognized borders and repatriation of remains. End Comment.

For more reporting from Embassy Kuwait, visit:
visit Kuwait's Classified Website at:

http://www.intelink.sgov.gov/wiki/Portal:Kuwa_it

JONES